S&P Global Ratings

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## Summary:

# New Mexico Finance Authority; State Revolving Funds/Pools

**Primary Credit Analyst:**
James M Breeding, Dallas (1) 214-871-1407; james.breeding@spglobal.com

**Secondary Contact:**
Scott D Garrigan, New York (1) 312-233-7014; scott.garrigan@spglobal.com

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**Summary:**

# New Mexico Finance Authority; State Revolving Funds/Pools

| Credit Profile | | |
| --- | --- | --- |
| US$125.68 mil revolving fund rev and rfdg bnds (Senior Ln Pub Proj) ser 2018A due 06/01/2042 | | |
| *Long Term Rating* | AAA/Stable | New |

## Rationale

S&P Global Ratings has assigned its 'AAA' rating to the New Mexico Finance Authority's series 2018A senior-lien public project revolving fund (PPRF) revenue bonds. We also have affirmed our 'AAA' rating on the authority's senior-lien bonds and subordinate-lien bonds outstanding.

The 'AAA' rating on the senior-lien bonds and subordinate-lien bonds reflects our view of the combination of a very strong enterprise risk profile score and an extremely strong financial risk profile score, resulting from:

- A very strong market position;
- An extremely strong loss coverage score (LCS), partially offset by the high degree of concentration in the program as a whole, but bolstered by a history of positive growth in government gross receipt taxes (GGRT);
- A history of very low delinquency rates and no defaults; and
- Generally strong financial policies and practices.

The 'AAA' rating also reflects the application of available overrides given exceptionally low default and delinquency history and the program's ability to withstand a level of defaults well above that needed to maintain the current LCS. Because we view securitizations backed by pools of public-sector assets as highly sensitive to country risk, the rating on the securitization is capped at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'. Authority officials intend to use proceeds from this series for loan reimbursements and to refund a portion of the series 2008A bonds outstanding.

The senior-lien bonds are secured by trust estate revenues (including the authority's 75% portion of statewide GGRT collections) and aggregate payments under borrower loan agreements. These primarily include municipal, state, and GGRT at 34% of loan principal, net system revenue pledges (23%), general obligation (GO) ad valorem taxes (21%), and miscellaneous local special taxes (12%). The subordinate-lien bonds have a subordinate pledge of the trust estate revenues, plus specific borrower loan payments related to the subordinate-lien bonds.

The very strong enterprise risk score is the result of a low industry risk score, which is characteristic of all public finance long-term municipal pool programs, and a very strong market position, reflecting the enabling legislation that created the authority and the current management structure, along with ongoing support provided by the state through the ongoing disbursements of its GGRT. The authority was established by the legislature of the State of New Mexico in 1992 and is a governmental instrumentality separate and apart from the state created to coordinate the planning and financing of state and local public projects. The authority is composed of 11 members, who serve as the governing body. An executive committee provides oversight and direction relating to the authority's operations.

The extremely strong financial risk profile results from the program's ability to absorb a very high level of defaults. This is due to a combination of ongoing GGRT revenue and the availability of funds in the common debt service reserve funds, with a current balance of $30.7 million in both the senior and subordinate accounts.

Following this issuance, there will be about $1.01 billion of senior-lien bonds outstanding. There are more than 620 loans to about 200 different borrowers supporting the senior-lien bonds, with about $1.5 billion of loans principal and interest anticipated to provide coverage to about $1.4 billion of bond principal and interest outstanding. The leading borrowers, in terms of loan amount outstanding, include the City of Santa Fe and certain departments of the state. There have been no defaults in the program's history. In addition to loan repayments, there is also a steady stream of GGRT revenues supporting the bonds. Authority management routinely projects annual receipts will remain stable. GGRTs have experienced only three declines in the past 20 years. Based on the last 12 months of actual receipts, GGRT collections for 2017 reflect a 4.5% growth rate to about $29.4 million. Under a no-default scenario, these revenues are passed through the PPRF program for other authority programs. As a further enhancement, about 60% of the loan payments are subject to an intercept of state funds.

Loan revenues plus GGRT revenues are projected to provide annual senior-lien debt service coverage of at least 1.3x. The excess coverage is then available to cover subordinate-lien debt service, though annual subordinate-lien loan revenue alone is projected to provide just over 1.0x coverage of subordinate-lien debt service. At the subordinate-lien level, there is about $246 million of bonds outstanding, supported by $304 million of loan principal outstanding through approximately 165 loan agreements. Program management policies are generally considered adequate to strong. There are formal loan application guidelines, with an evaluation of credit risks undertaken. Borrowers are required to submit annual financial statements, though not every financial report may be reviewed annually. To guard against any timing concerns, loan payments are received monthly. Additionally, there are approved investment guidelines that match the state's investment policies.

## Outlook

The stable outlook reflects our expectation for continued stable borrower credit quality and timely borrower loan repayment, coupled with steady GGRT revenues. Neither the enterprise risk nor the financial risk profile scores are likely to change given the stability of revenues; therefore, we do not anticipate any negative rating action in the short or medium term.

### Downside scenario

Should there be a significant change in the credit quality of the borrower portfolio, a sudden spike in loan defaults, or a sizable reduction in overcollateralization provided by GGRT, we would likely lower the ratings.

| Ratings Detail (As Of February 2, 2018) | | |
|---|---|---|
| New Mexico Fin Auth state revolv/fds pool | | |
| *Long Term Rating* | AAA/Stable | Affirmed |

| Ratings Detail (As Of February 2, 2018) (cont.) | | |
|---|---|---|
| New Mexico Fin Auth subord lien pub proj revolv fd rev bnds | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| New Mexico Fin Auth subord lien pub proj revolv fd rev bnds | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| New Mexico Fin Auth SRFPOOL | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| **New Mexico Fin Auth pub proj revolving fd rev bnds** | | |
| *Unenhanced Rating* | AAA(SPUR)/Stable | Affirmed |
| **New Mexico Fin Auth sr lien pub proj revolv fd ser 2000B** | | |
| *Unenhanced Rating* | AAA(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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**Summary:**

# New Mexico Finance Authority; State Revolving Funds/Pools

| Credit Profile | | |
|---|---|---|
| US$28.145 mil sub ln pub proj revolving fd rev and rfdg bnds ser 2018 C-1 due 06/15/2039 | | |
| *Long Term Rating* | AAA/Stable | New |
| US$22.465 mil senior ln pub proj revolving fd rev and rfdg bnds ser 2018B due 06/01/2031 | | |
| *Long Term Rating* | AAA/Stable | New |
| US$6.155 mil sub ln pub proj revolving fd rev and rfdg bnds ser 2018C-2 due 06/15/2025 | | |
| *Long Term Rating* | AAA/Stable | New |

## Rationale

S&P Global Ratings has assigned its 'AAA' rating to the New Mexico Finance Authority's series 2018B senior-lien public project revolving fund (PPRF) revenue bonds and series 2018C subordinate-lien PPRF bonds. We also have affirmed our 'AAA' rating on the authority's previously issued senior-lien and subordinate-lien bonds. The outlook on all ratings is stable.

The 'AAA' rating reflects our view of the combination of a very strong enterprise risk profile score and an extremely strong financial risk profile score, resulting from:

- A very strong market position;
- An extremely strong loss coverage score (LCS), partially offset by the high degree of concentration in the program as a whole, but bolstered by a history of positive growth in government gross receipt taxes (GGRT);
- A history of very low delinquency rates and no defaults; and
- Generally strong financial policies and practices.

The 'AAA' rating also reflects the application of available overrides given exceptionally low default and delinquency history and the program's ability to withstand a level of defaults well above that needed to maintain the current LCS. Because we view securitizations backed by pools of public-sector assets as highly sensitive to country risk, the rating on the securitization is capped at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'. Authority officials intend to use proceeds from these series for loan reimbursements and new loans.

The senior-lien bonds are secured by trust estate revenues (including the authority's 75% portion of statewide GGRT collections) and aggregate payments under borrower loan agreements. These primarily include municipal, state, and GGRT at 35% of loan principal; net system revenue pledges (23%), general obligation ad valorem taxes (21%); and miscellaneous local special taxes (12%). The subordinate-lien bonds have a subordinate pledge of the trust estate revenues, plus specific borrower loan payments related to the subordinate-lien bonds.

The very strong enterprise risk score is the result of a low industry risk score, which is characteristic of all public finance long-term municipal pool programs, and a very strong market position, reflecting the enabling legislation that created the authority and the current management structure, along with ongoing support provided by the state through the ongoing disbursements of its GGRT. The authority was established by the legislature of the State of New Mexico in 1992 and is a governmental instrumentality separate and apart from the state created to coordinate the planning and financing of state and local public projects. The authority is composed of 11 members, who serve as the governing body. An executive committee provides oversight and direction relating to the authority's operations.

The extremely strong financial risk profile results from the program's ability to absorb a very high level of defaults. This is due to a combination of ongoing GGRT revenue and the availability of funds in the common debt service reserve funds, with a current balance of $30.7 million in both the senior and subordinate accounts.

Following this issuance, there will be about $1.01 billion of senior-lien bonds outstanding. There are more than 600 loans to about 200 different borrowers supporting the senior-lien bonds, with about $1.5 billion of loans principal and interest anticipated to provide coverage to about $1.4 billion of bond principal and interest outstanding. The leading borrowers, in terms of loan amount outstanding, include the city of Santa Fe and certain departments of the state. There have been no defaults in the history of the program. In addition to loan repayments, there is also a steady stream of GGRT revenues supporting the bonds. Authority management routinely projects annual receipts will remain stable. GGRTs have experienced only three declines in the past 20 years. Based on the last 12 months of actual receipts, GGRT collections for 2017 reflect a 4.5% growth rate to about $29.4 million. Under a no-default scenario, these revenues are passed through the PPRF program for other authority programs. As a further enhancement, about 60% of the loan payments are subject to an intercept of state funds.

Loan revenues plus GGRT revenues are projected to provide annual senior-lien debt service coverage of at least 1.3x. The excess coverage is then available to cover subordinate-lien debt service, though annual subordinate-lien loan revenue alone is projected to provide just over 1.0x coverage of subordinate-lien debt service in the early years. Over the life of the bonds, there is approximately $770 million of loan revenue receivable to pay, in aggregate, $354 million of subordinate bond principal and interest. Program management policies are generally considered adequate to strong. There are formal loan application guidelines, with an evaluation of credit risks undertaken. Borrowers are required to submit annual financial statements, though not every financial report may be reviewed annually. To guard against any timing concerns, loan payments are received monthly. In addition, there are approved investment guidelines that match the state's investment policies.

## Outlook

The stable outlook reflects our expectation for continued stable borrower credit quality and timely borrower loan repayment, coupled with steady GGRT revenues. Neither the enterprise risk nor the financial risk profile scores are likely to change given the stability of revenues; therefore, we do not anticipate any negative rating action in the short or medium term.

### Downside scenario

Should there be a significant change in the credit quality of the borrower portfolio, a sudden spike in loan defaults, or a sizable reduction in overcollateralization provided by GGRT, we would likely lower the ratings.

| Ratings Detail (As Of April 24, 2018) | | |
|---|---|---|
| New Mexico Fin Auth state revolv/fds pool | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| New Mexico Fin Auth subord lien pub proj revolv fd rev bnds | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| New Mexico Fin Auth subord lien pub proj revolv fd rev bnds | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| New Mexico Fin Auth SRFPOOL | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| **New Mexico Fin Auth pub proj revolving fd rev bnds** | | |
| *Unenhanced Rating* | AAA(SPUR)/Stable | Affirmed |
| **New Mexico Fin Auth sr lien pub proj revolv fd ser 2000B** | | |
| *Unenhanced Rating* | AAA(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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**Summary:**

# New Mexico Finance Authority; State Revolving Funds/Pools

| Credit Profile | | |
| --- | --- | --- |
| US$72.63 mil subord lien pub proj revolving fd rev bnds ser 2018E due 06/15/2038 | | |
| *Long Term Rating* | AAA/Stable | New |
| US$54.355 mil sr lien pub proj revolving fd rev bnds ser 2018D due 06/01/2038 | | |
| *Long Term Rating* | AAA/Stable | New |
| **New Mexico Fin Auth sr lien pub proj revolv fd ser 2000B** | | |
| *Unenhanced Rating* | AAA(SPUR)/Stable | Affirmed |

## Rationale

S&P Global Ratings assigned its 'AAA' rating to the New Mexico Finance Authority's series 2018D senior-lien public project revolving fund (PPRF) revenue bonds and series 2018E subordinate-lien PPRF bonds. S&P Global Ratings also affirmed its 'AAA' rating on the authority's previously issued senior-lien and subordinate-lien bonds. The outlook is stable.

The rating reflects our view of the combination of a very strong enterprise risk profile score and an extremely strong financial risk profile score, resulting from:

- A very strong market position;
- An extremely strong loss coverage score (LCS), partially offset by the high degree of concentration in the program as a whole, but bolstered by a history of positive growth in government gross receipt taxes (GGRT);
- A history of very low delinquency rates and no defaults; and
- Generally strong financial policies and practices.

The rating also reflects the application of available overrides given exceptionally low default and delinquency history and the program's ability to withstand a level of defaults well above that needed to maintain the LCS. Because we view securitizations backed by pools of public-sector assets as highly sensitive to country risk, the rating on the securitization is capped at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'. Bond proceeds will reimburse or create new funding for 33 loans. Trust estate revenues (including the authority's 75% portion of statewide GGRT collections) and total payments under borrower loan agreements secure the senior-lien bonds. These primarily include municipal, state, and GGRT at 36% of loan principal; net system revenue pledges (23%), general obligation ad valorem taxes (21%); and miscellaneous local special taxes (10%). The subordinate-lien bonds have a subordinate pledge of the trust estate revenues, plus specific borrower loan payments related to the subordinate-lien bonds.

The very strong enterprise risk score is the result of a low industry risk score, which is characteristic of all public finance long-term municipal pool programs, and a very strong market position, reflecting the enabling legislation that created the authority and the current management structure, along with ongoing support provided by the state through the disbursements of its GGRT. In 1992, the New Mexico legislature established the authority, which coordinates the planning and financing of state and local public projects. The authority is composed of 11 members, who serve as the governing body. An executive committee provides oversight and direction relating to the authority's operations.

The extremely strong financial risk profile results from the program's ability to absorb a very high level of defaults. This is due to ongoing GGRT revenue and the availability of funds in the common debt service reserve funds, with a current balance of $31.1 million in both the senior and subordinate accounts.

About $1.01 billion of senior-lien bonds is outstanding. More than 600 loans to about 200 borrowers support the senior-lien bonds, with about $1.5 billion of loans principal and interest anticipated to provide coverage to about $1.4 billion of bond principal and interest outstanding. The leading borrowers, in terms of loan amount outstanding, include the City of Santa Fe and certain departments of the state. There have been no defaults in the program's history. In addition to loan repayments, a steady stream of GGRT revenues support the bonds. Authority management routinely projects annual receipts will remain stable. GGRTs have declined only three times in the past 20 years. Based on the last 12 months of actual receipts, GGRT collections for 2018 reflect a 6.5% growth rate to about $31.3 million. Under a no-default scenario, these revenues are passed through the PPRF program for other authority programs. As a further enhancement, about 60% of the loan payments are subject to an intercept of state funds.

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## Outlook

The stable outlook reflects our expectation for continued stable borrower credit quality and timely borrower loan repayment, coupled with steady GGRT revenues. Neither the enterprise risk nor the financial risk profile scores are likely to change given the stability of revenues; therefore, we do not anticipate a negative rating action in the short or medium term.

Should there be a significant change in the credit quality of the borrower portfolio, a sudden spike in loan defaults, or a sizable reduction in overcollateralization provided by GGRT, we would likely lower the ratings.

| Ratings Detail (As Of October 5, 2018) |
| --- |

| Ratings Detail (As Of October 5, 2018) (cont.) | | |
|---|---|---|
| New Mexico Fin Auth SRFPOOL sr lien | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| New Mexico Fin Auth SRFPOOL subord lien | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| New Mexico Fin Auth SRFPOOL subord lien | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| New Mexico Fin Auth SRFPOOL subord lien | | |
| *Long Term Rating* | AAA/Stable | Affirmed |
| **New Mexico Fin Auth pub proj revolving fd rev bnds** | | |
| *Unenhanced Rating* | AAA(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

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